

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2023

Volume 16 Issue 192

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	7

Tonight's Research Points

- After going an extended period of time without closing above the 10ma, SPX managed to close above it today. When in a long-term uptrend, that has often led to further gains.
- When the market has risen heading into Columbus Day, it has often seen a further rise.
- The Seasonality Calendar is mostly neutral this week, but the rest of October looks strong for the bulls.
- The NASDAQ took relative leadership from the SPX, which is a positive intermediate-term sign.
- The SOMA declined a sizable amount for the week ending 10/4 and the Fed remains a bearish market force.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. We could see more of a bounce, but SPX is now short-term overbought.

Summary of Current Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 9, 2023	SPX up over last week. Columbus Day	1 day	Bullish			
October 6, 2023	20-low. Up day. Then inside down.	1-3 days	Bullish	2.60%	-1.40%	-3.35%
October 4, 2023	Gap < 20 low. Close < open.	1-5 days	Bullish	2.30%	-1.10%	-2.20%
October 3, 2023	Higher Hi down. Lower low up. < 10ma	1-5 days	Bullish			
Active - Long Term						
October 9, 2023	NASDAQ Leading	int term	Bullish			
October 6, 2023	20-low. Up day. Then inside down.	1-10 days	Bullish	4.60%	-2.50%	-6.10%
October 2, 2023	SPX down 4 weeks but above 40-week ma	1-10 weeks	Bullish			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

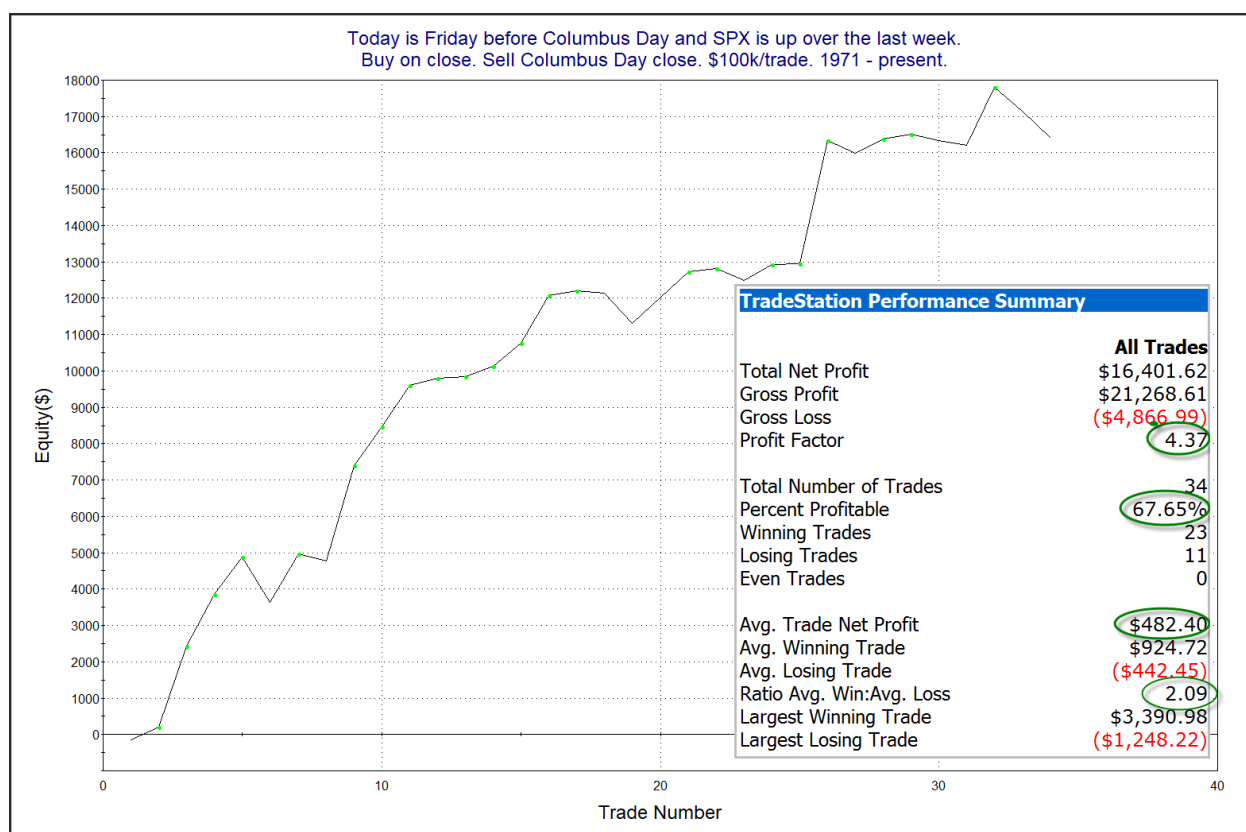
Friday saw quite the turnaround after a big gap down to start the day. The SPX rallied 1.2%, the NASDAQ gained 1.6%, and the Russell 2000 rose 0.8%. Breadth was strong with the NYSE Up Issues % coming in at 64% and the Up Volume % at 71%. NYSE total volume rose some from Thursday's level.

Friday was the 1st day that SPX closed above its 10ma since September 14th. So prior to that was a run of 15 days in a row below the 10ma. When the market is above its 200ma, that is quite unusual. The study below looked back at other times during uptrends that SPX moved above its 10ma after closing below it for at least 3 weeks. It was last seen in the 8/24/23 letter. Results are updated.

SPX closes above the 10ma after closing below it for at least 15 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	3,390.26	15	10	5	66.67	5,295.98	-11,602.12	2,777.71	-4,877.38	0.57	1.14	226.02
9	7,277.96	15	10	5	66.67	4,191.90	-6,371.60	2,379.66	-3,303.73	0.72	1.44	485.20
8	13,911.02	15	10	5	66.67	4,436.82	-4,917.08	2,356.15	-1,930.10	1.22	2.44	927.40
7	17,422.66	15	13	2	86.67	4,151.08	-3,822.96	1,734.84	-2,565.10	0.68	4.40	1,161.51
6	13,144.08	15	13	2	86.67	3,821.38	-3,349.68	1,368.50	-2,323.21	0.59	3.83	876.27
5	11,290.78	15	12	3	80.00	4,176.20	-3,519.00	1,417.12	-1,904.89	0.74	2.98	752.72
4	5,598.82	15	8	7	53.33	2,517.97	-4,068.00	1,537.35	-957.14	1.61	1.84	373.25
3	2,615.68	15	11	4	73.33	1,943.76	-4,078.50	888.43	-1,789.27	0.50	1.37	174.38
2	5,440.38	15	10	5	66.67	1,773.59	-1,656.75	949.80	-811.51	1.17	2.34	362.69
1	-3,792.39	15	6	9	40.00	1,613.68	-1,480.36	512.40	-762.98	0.67	0.45	-252.83

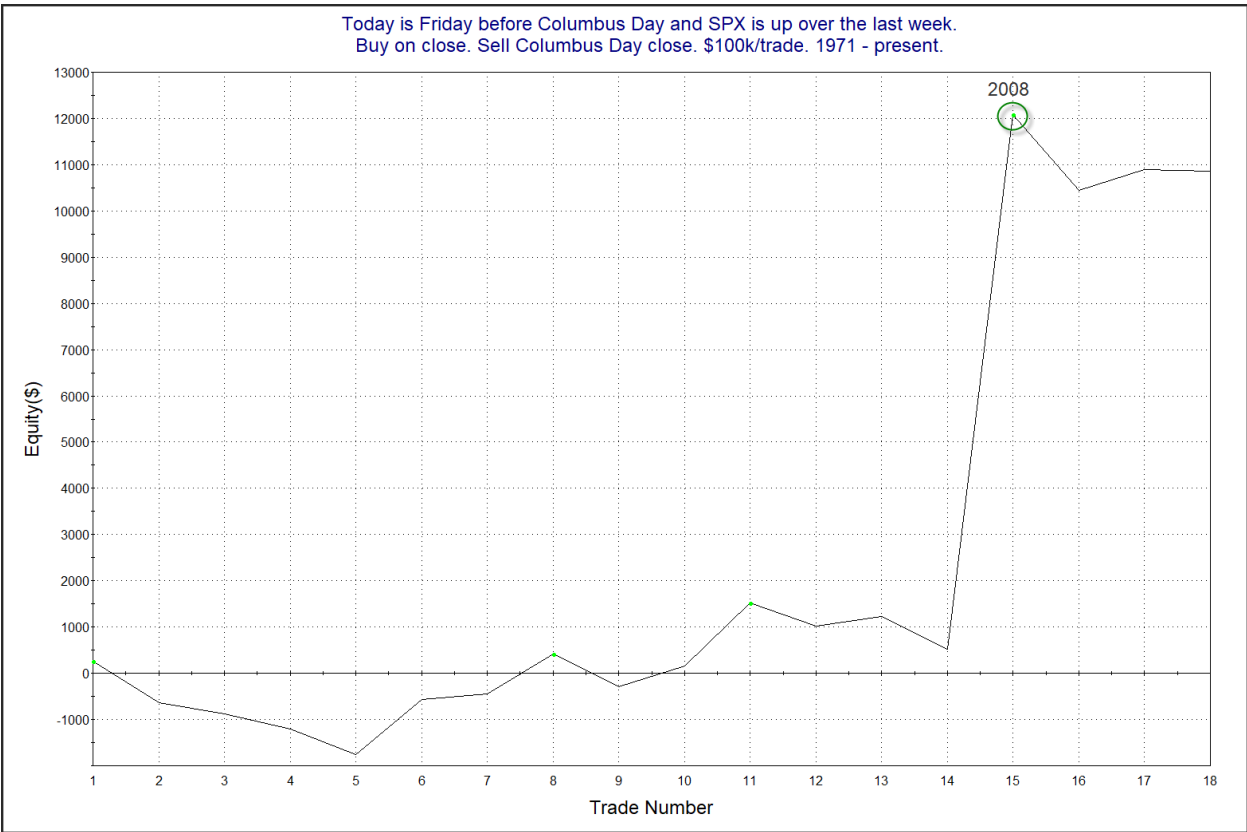
We see here some suggestion of an upside edge. But the instances over the last 43 years have been light, with today's instance just the 4th one since 2013. Additionally, results are choppy and inconsistent over the 1st few days. Therefore, while it suggests we could see some follow-through over the next week or so, I have not added this study to the active list tonight.

While the stock market is open on Monday, banks, schools, government offices, and the bond market are closed. In past years with the bond market closed, the stock market has done quite well on Columbus Day. Of course the most famous Columbus Day rally was in 2008 when the market gained over 11% after having crashed the week before. In the 10/12/20 subscriber letter I showed that positive momentum leading up to Columbus Day has generally led to a positive Columbus Day. But there has not been a strong edge when the market stumbled heading into Columbus Day. Columbus Day has been celebrated on the 2nd Monday of October since 1971. Below is an updated breakdown of the study. First, times like now where there was momentum heading into it.



I've circled some of the more impressive stats here. With 68% of trades profitable and winners over twice the size of losers, risk/reward has been very favorable. The last 2 instances have been losers, but the overall curve still looks impressive.

What about times *without* positive momentum? Below is an equity curve showing results of that setup.



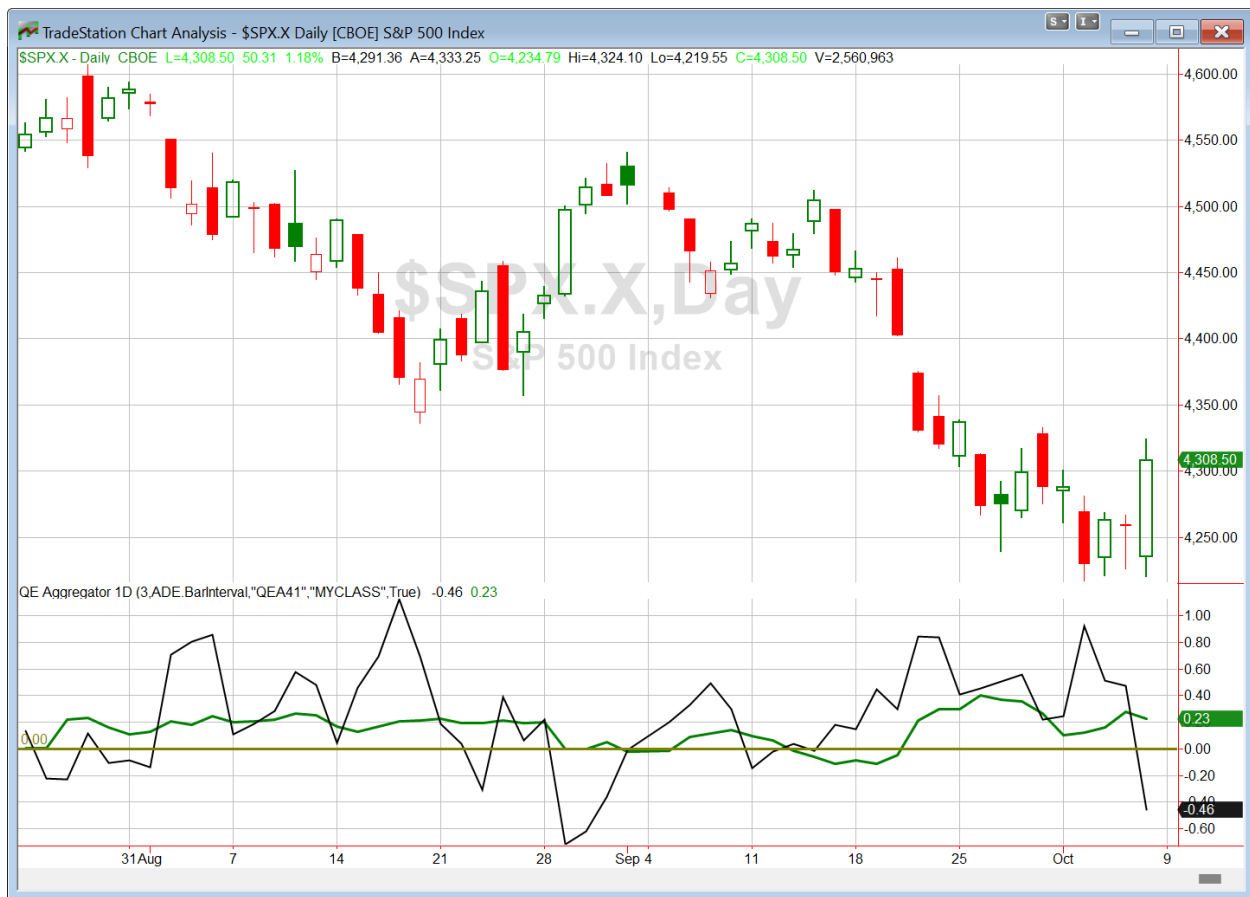
As I mentioned above, 2008 was a huge outlier. Take away that one year and Columbus Day showed a mild negative return when the prior week was down. Overall, it does not appear to be a dependable edge without some upside momentum heading into it. But this year, it does look like we might have a bullish seasonal edge.

Speaking of Seasonality, below is a look at the October SPX Calendar.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/2/2023	57.39	1.474	0.119
10/3/2023	50.43	0.988	-0.008
10/4/2023	55.83	1.190	0.048
10/5/2023	53.57	0.956	-0.018
10/6/2023	54.26	1.101	0.031
10/9/2023	53.53	0.951	-0.025
10/10/2023	50.58	1.057	0.016
10/11/2023	52.65	0.976	-0.010
10/12/2023	54.67	0.980	-0.011
10/13/2023	54.69	1.204	0.057
10/16/2023	58.45	1.397	0.097
10/17/2023	54.41	1.637	0.153
10/18/2023	54.81	1.369	0.089
10/19/2023	54.06	1.290	0.062
10/20/2023	51.35	1.249	0.048
10/23/2023	55.48	1.259	0.069
10/24/2023	53.91	1.248	0.067
10/25/2023	55.17	1.358	0.100
10/26/2023	57.36	1.418	0.116
10/27/2023	55.44	1.190	0.048
10/30/2023	53.09	1.183	0.049
10/31/2023	51.53	1.171	0.047
Baseline	53.53	1.127	0.043

Most of the upcoming week looks fairly neutral. But starting Friday, the Calendar is all-green for the rest of the month. That could be good news for the bulls.

I have updated [the Aggregator chart](#) below.



With this weekend's evidence considered, the green Aggregator Line is again above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dove down below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation turned flat at the close.

Based on the current list of active studies, expectations are slated to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4279.64 on Monday. That is 0.7% below Friday's close. Therefore, SPX will need to close down about 0.7% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator formation is now neutral. We could certainly see more upside in the coming days, but Friday's rally quickly turned SPX overbought. This greatly reduces reward/risk. I have some index exposure left, and I will look to exit that if I can get a decent fill on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/9– bullish

Combo #1	Combo #2	Combo #3	Combo #4
Long QQQ	Long QQQ	Long QQQ	Long QQQ

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions.

The Combo Systems did not change this week.

It was a mixed week for the market. The SPX rose 0.5%, the NASDAQ gained 1.6%, and the Russell 2000 declined 2.2%. The huge bond selloff continued. The US Aggregate Bond ETF (AGG) posted a loss of 1.1%. TLT, the 20-year Treasury Bond ETF, fell 4.1%. Long-term uptrends for the SPX and NASDAQ remain in place. A new study with intermediate-term implications triggered and was discussed in the Thursday night letter. I have copied it below.

After closing at an intermediate-term low on Tuesday, the market put in a bounce attempt on Wednesday. Thursday's decline left that attempt looking like a possible failure. But it also triggered a study that suggested an upside edge moving forward. Last seen in the 1/26/22 Letter, I have updated the results below.

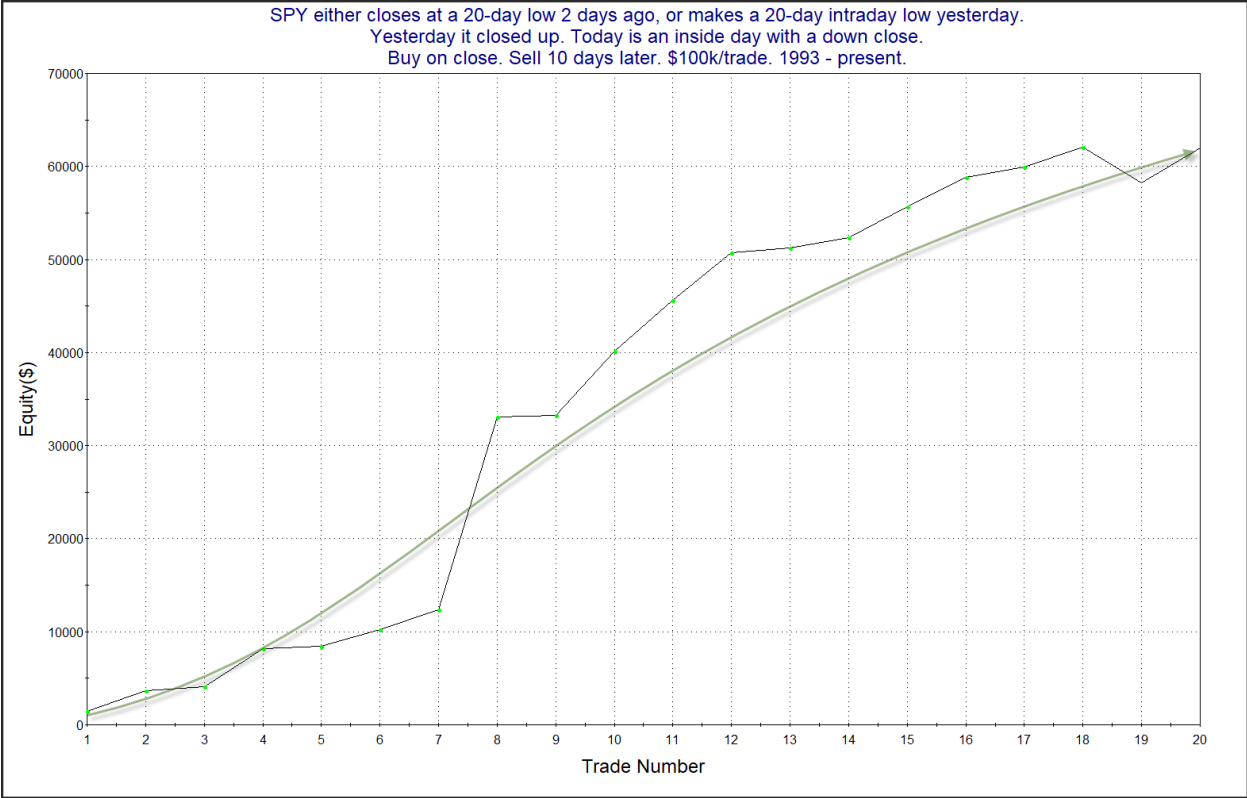
SPY either closes at a 20-day low 2 days ago, or makes a 20-day intraday low yesterday. Yesterday it closed up. Today is an inside day with a down close. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	62,000.86	20	19	1	95.00	20,713.48	-3,836.56	3,465.13	-3,836.56	0.90	17.16	3,100.04
9	45,289.37	20	16	4	80.00	12,624.80	-3,301.48	3,273.18	-1,770.39	1.85	7.40	2,264.47
8	36,279.64	20	16	4	80.00	15,898.44	-5,475.84	2,908.94	-2,565.85	1.13	4.53	1,813.98
7	27,914.83	20	14	6	70.00	17,351.76	-7,242.24	3,341.64	-3,144.69	1.06	2.48	1,395.74
6	27,794.58	20	14	6	70.00	14,782.76	-6,447.36	3,134.99	-2,682.55	1.17	2.73	1,389.73
5	15,636.98	20	14	6	70.00	11,377.00	-11,713.44	3,011.23	-4,420.03	0.68	1.59	781.85
4	28,447.19	20	15	5	75.00	11,714.64	-9,229.44	3,168.70	-3,816.66	0.83	2.49	1,422.36
3	23,918.94	20	16	4	80.00	10,848.52	-6,458.40	2,422.88	-3,711.79	0.65	2.61	1,195.95
2	17,382.83	20	15	5	75.00	6,650.04	-3,047.04	1,907.83	-2,246.92	0.85	2.55	869.14
1	9,512.04	20	11	8	55.00	5,960.08	-1,883.84	1,532.15	-917.70	1.67	2.30	475.60

The stats certainly appear bullish and the edge seems to occur both right off the bat and after a couple of weeks. Below are the list of instances with their 3-day results.

SPY either closes at a 20-day low 2 days ago, or makes a 20-day intraday low yesterday
 Yesterday it closed up. Today is an inside day with a down close.
 Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

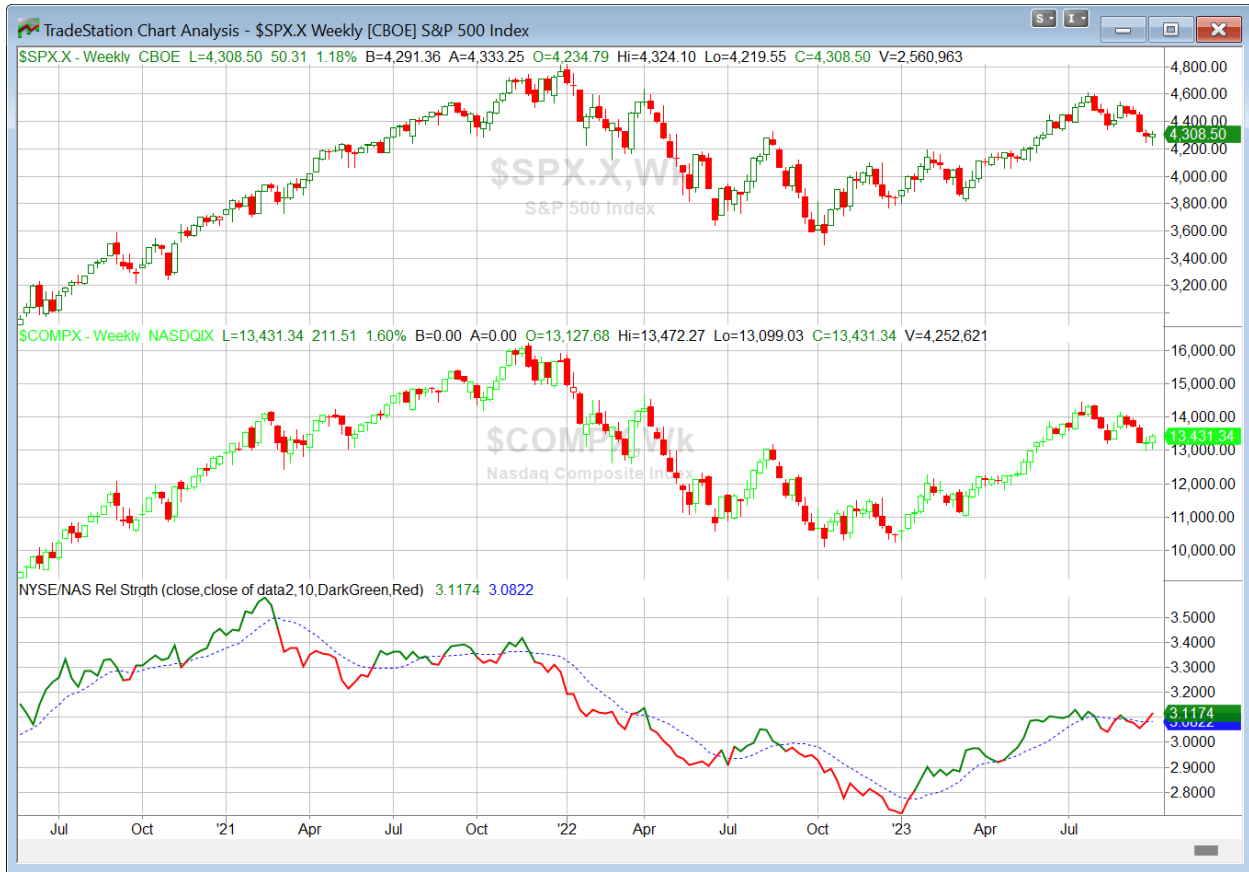
Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/3/1994	Buy	\$46.56	0.41%	\$944.68
3/8/1994	Sell	\$46.75		(\$300.58)
5/9/2002	Buy	\$107.75	2.29%	\$2,431.36
5/14/2002	Sell	\$110.22		(\$1,995.20)
7/16/2002	Buy	\$90.56	-6.46%	\$3,024.96
7/19/2002	Sell	\$84.71		(\$6,911.04)
10/2/2002	Buy	\$83.15	-4.83%	\$1,742.90
10/7/2002	Sell	\$79.13		(\$5,529.20)
12/17/2002	Buy	\$90.85	-0.95%	\$0.00
12/20/2002	Sell	\$89.99		(\$2,475.00)
8/30/2005	Buy	\$121.05	1.01%	\$1,734.60
9/2/2005	Sell	\$122.27		(\$256.06)
1/22/2009	Buy	\$82.75	2.15%	\$3,152.88
1/27/2009	Sell	\$84.53		(\$2,633.44)
3/9/2009	Buy	\$68.11	10.85%	\$11,215.52
3/12/2009	Sell	\$75.50		\$0.00
5/28/2010	Buy	\$109.37	1.23%	\$1,544.66
6/3/2010	Sell	\$110.71		(\$1,828.00)
8/30/2010	Buy	\$105.31	3.95%	\$3,966.82
9/2/2010	Sell	\$109.47		(\$778.18)
6/17/2011	Buy	\$127.05	1.28%	\$2,172.12
6/22/2011	Sell	\$128.67		(\$369.89)
8/10/2011	Buy	\$112.29	7.42%	\$7,520.50
8/15/2011	Sell	\$120.62		\$0.00
12/19/2013	Buy	\$181.49	0.81%	\$841.50
12/24/2013	Sell	\$182.96		(\$506.00)
10/9/2014	Buy	\$192.74	-2.61%	\$471.38
10/14/2014	Sell	\$187.70		(\$2,952.60)
7/8/2015	Buy	\$204.53	2.56%	\$2,620.56
7/13/2015	Sell	\$209.77		\$0.00
5/23/2016	Buy	\$205.21	2.01%	\$2,220.72
5/26/2016	Sell	\$209.34		\$0.00
9/13/2016	Buy	\$213.23	0.07%	\$1,170.00
9/16/2016	Sell	\$213.37		(\$341.64)
4/18/2017	Buy	\$233.87	0.31%	\$845.46
4/21/2017	Sell	\$234.59		(\$294.63)
10/15/2018	Buy	\$274.40	0.73%	\$2,457.00
10/18/2018	Sell	\$276.40		\$0.00

Since 2003, the results have been near perfect. Of course, 19 of the total 20 instances were positive 10-days out. Here is a look at that profit curve.



This all appears impressive. I believe this study is worth consideration. I have added it to the short and intermediate-term active lists.

Except for one week in early September, the SPX has been leading the NASDAQ since early August according to the NASDAQ/SPX Relative Leadership indicator we use. On Friday the NASDAQ took the lead. This can be seen in the chart below.



The movement of the red line (which is about to turn green) above the blue dotted line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

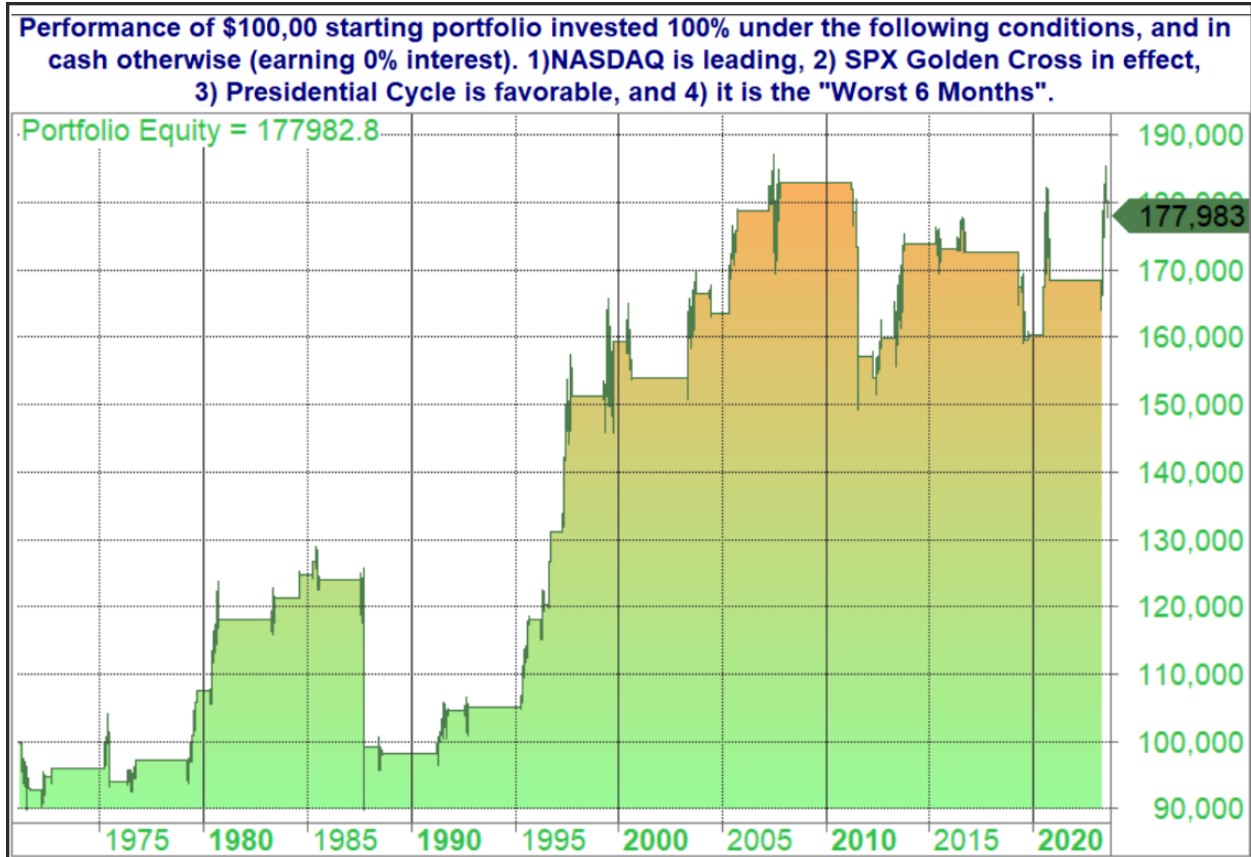
Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 10/6/23.			
	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.49%	-56.78%	\$4,220,295.92
SPX when NASDAQ lags	-0.13%	-67.21%	\$93,505.56
SPX when NASDAQ leads	7.63%	-33.92%	\$4,513,416.92
NASDAQ Composite	9.64%	-77.93%	\$11,769,487.94
NASDAQ when lagging	-1.60%	-85.53%	\$43,268.53
NASDAQ when leading	11.43%	-40.62%	\$27,201,031.55
NASDAQ when leading (with interest when in cash)*	13.94%	-37.64%	\$86,148,406.45

*interest on cash calculated at historical 30-day Fed Funds rate

More on this indicator can be found in the Market Timing Course.

I decided also to take a look at how the market has done when all original 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX “Golden

Cross” in effect, 3) favorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below is a chart showing SPX performance during this alignment.



Overall, the curve has moved higher, but it has not been greatly consistent – especially over the last 20 years. Still, with 3 of the 4 indicators positive, I am inclined to view this configuration as generally bullish.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

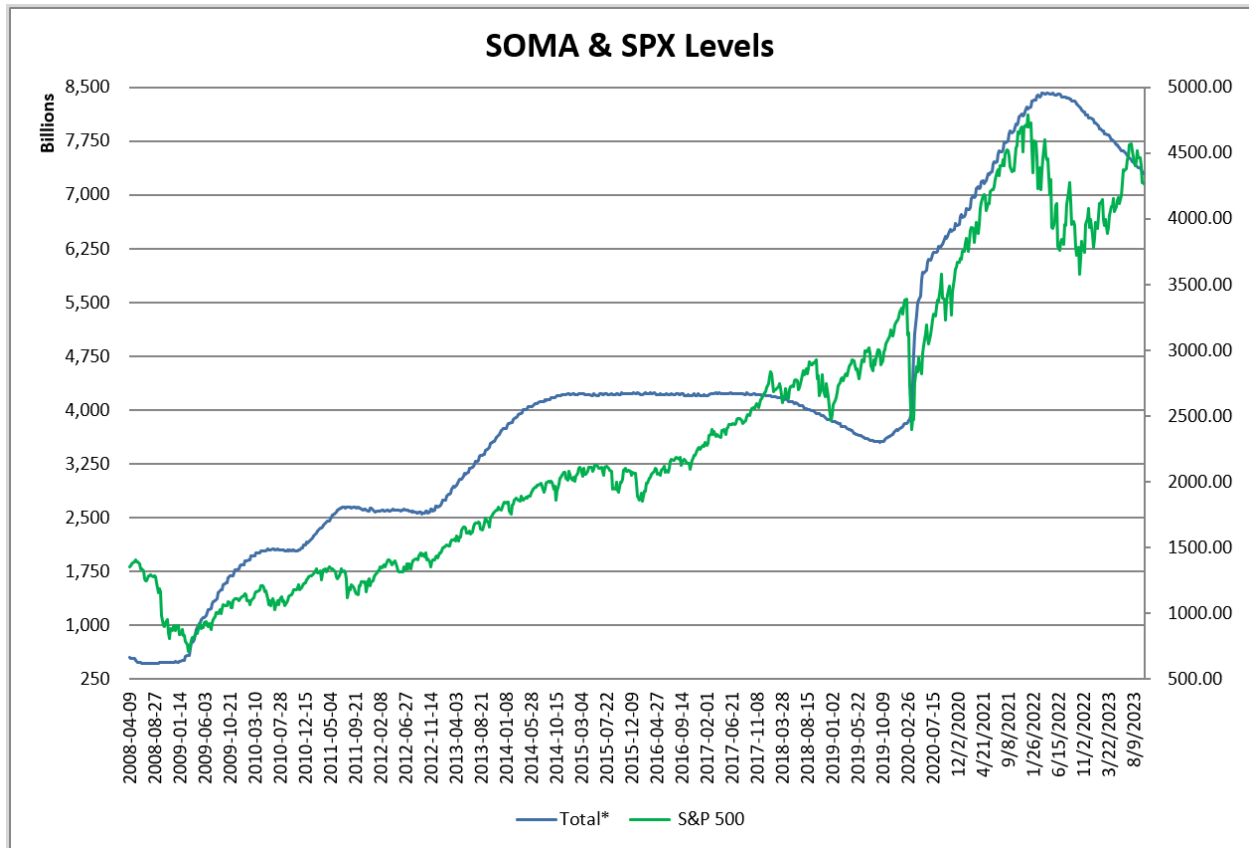
Domestic Security Holdings as of

◀ Previous **October 4, 2023** 📅
Posted October 5, 2023 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

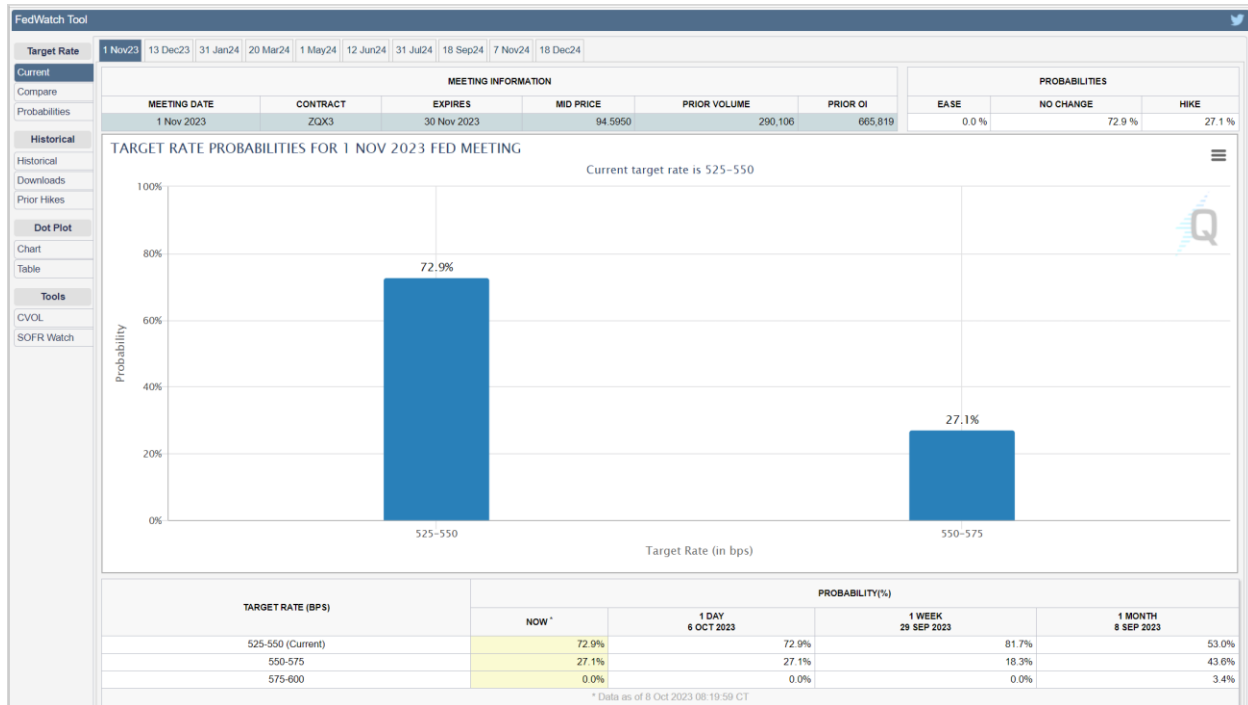
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	238,532,553.7
US Treasury Notes and Bonds (Notes/Bonds)	4,197,645,997.8
US Treasury Floating Rate Notes (FRNs)	17,770,390.6
US Treasury Inflation-Protected Securities (TIPS)*	365,380,447.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,471,406,562.7
Agency Commercial Mortgage-Backed Securities***	8,319,556.5
Total SOMA Holdings	7,301,402,508.7
Change From Prior Week	-28,086,651.3

As we expected, there was a sizable drop in the SOMA this past week, coming in at \$28 billion. For the current week, I expect to see a much more muted decline. Then the week ending the 18th should see large numbers. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is in the midst of what is now the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back Quantitative Tightening (QT) anytime soon. SPX is about breakeven since QT began in early 2022. Looking back to 2003, the market has posted net mild losses during times that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing. The shrinking SOMA remains a headwind for the market.

With regards to rates, odds of additional hike at the November meeting decreased mildly this week. Odds of an increase currently stand at about 27%, which is down from 31% last week. This can be seen in the screenshot below of the CME Fedwatch Tool:



The Fed remains “data dependent”. And there is time between now and November, so these odds will likely change quite a bit over the next few weeks. Bottom line, between hiking rates and QT, the Fed remains a bearish market force.

I switched to bullish last weekend, and I am seeing more evidence backing the bullish bias this week. Thursday night’s study suggested a strong chance of at least a 2-week bounce. The NASDAQ taking leadership on Friday is another bullish indication. The 4-weeks lower study shown last weekend suggested the selling was reaching a point where it normally exhausted. The SPX and NASDAQ remain above their long-term moving averages, so the longer-term trends still appear up. Combined with the fact that we are in a favorable part of the Presidential Cycle, this has all 4 Combo Models from the Market Timing Course leaning long QQQ. Still, there remain challenges for the bulls. The Fed remains hawkish and that is the largest headwind the market is facing. We are also still in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. And October has seen some wild swings in the past. We could also be seeing geopolitical risks rise with the fighting in Israel over the weekend. But while significant risks remain, most of the current evidence is bullish. So that is where I will keep my intermediate-term bias. I am willing to take short-term trades in either direction but will be more aggressive with longs and more conservative with short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BA – 1/3 @ \$199.95 (bought at limit)
BA – 1/3 @ \$197.71 (bought at limit)
MMM – 1/3 @ \$88.02 (bought @ limit)
MMM – 1/3 @ \$87.83 (buy @ limit)
BMY – 1/3 @ \$56.42 (buy @ limit)
LMT – 1/3 @ \$397.35 (buy @ limit)
RTX – 1/3 @ \$69.38 (buy @ limit)

Broad Market Large Cap CBI – 7(BA-2, MMM-2, BMY, LMT, RTX)

Additional New Trade Ideas

A full listing of system triggers can be found at the [numbered systems page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>SPY(1/4)</i>	<i>9/21/2023</i>	<i>\$431.39</i>	<i>\$429.54</i>	<i>-0.43%</i>	<i>sold on close</i>
BA(1/3)	9/22/2023	\$199.95	\$187.38	-6.29%	Catapult
<i>SPY(1/4)</i>	<i>9/25/2023</i>	<i>\$429.17</i>	<i>\$430.00</i>	<i>0.19%</i>	<i>sold @ LIMIT</i>
BA(1/3)	9/25/2023	\$196.84	\$187.38	-4.81%	Catapult
<i>LLY(1/3)</i>	<i>10/2/2023</i>	<i>\$536.01</i>	<i>\$544.00</i>	<i>1.49%</i>	<i>sold on open</i>
SPY(1/4)	10/4/2023	\$421.00	\$429.54	2.03%	<i>sell @ \$428.50 LIMIT</i>
MMM(1/3)	10/5/2023	\$88.00	\$88.40	0.45%	Catapult
MMM(1/3)	10/6/2023	\$87.40	\$88.40	1.14%	Catapult
BMY(1/3)	10/6/2023	\$56.25	\$56.66	0.73%	Catapult
LMT(1/3)	10/6/2023	\$395.40	\$400.73	1.35%	Catapult
RTX(1/3)	10/6/2023	\$69.10	\$69.77	0.97%	Catapult

I will sell my SPY position if I can get a fill anywhere close to Friday's closing price.

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